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Energy law and regulation in Kazakhstan

Organisation of the Energy Sector

Kazakhstan is the largest economy in Central Asia and home to more than 18 million people. As a country rich in coal, oil, natural gas and uranium, Kazakhstan's economic focus remains firmly on its industrial sector and the extraction and processing of its natural resources. There is also enormous potential for renewable energy in Kazakhstan, particularly from wind and small hydropower plants. Kazakhstan's total energy production covers more than twice its energy demand which is why in 2018 Kazakhstan was the world's 9th largest exporter of coal, 9th of crude oil and 12th of natural gas.

Energy accounts for about 21% of the country's gross domestic product (GDP), and approximately 62% of its exports.

Interestingly, coal represents around half of Kazakhstan's energy mix (50% in 2018), followed by oil and natural gas (both with 25% shares), whereas the share of natural gas in the total final consumption (TFC) is only 13% in 2018.

Gas

The Current Status of Kazakhstan's Gas Industry

The Kazakhstan gas sector has vast potential as its total proved reserves of the natural gas at the end of 2019 in Kazakhstan was 2.7 trillion cubic metres making it in 2018 the world's 12th largest exporter of natural gas. Most of Kazakhstan's natural gas reserves are in crude oil or condensate-rich fields and, therefore, 90% of produced gas in Kazakhstan is an associated gas. Much of Kazakhstan's gross natural gas production is reinjected (more than 30% in 2019) to increase oil production. Natural gas production (gross extraction) has been slowly but steadily increasing in recent years in Kazakhstan – from 19 billion cubic metres (bcm) in 2009 to 23.9 bcm in 2018. Natural gas production in Kazakhstan is expected by many experts to remain stagnant and even decrease after 2025, as no new foreign direct investments are expected to be attracted in the near future in exploration and development of new gas fields in Kazakhstan, unless deficiencies of the legislative architecture of the current gas market design will be rectified to improve commerciality for gas, as discussed below.

In terms of regional gas consumption, the western part of Kazakhstan is a significant gas consumer, while in the north and the east of Kazakhstan economies are run predominantly on coal. The south of Kazakhstan uses both gas and coal. This trend is expected to continue. Domestic consumption of natural gas though increased significantly, from 10.1 bcm in 2009 to 19 bcm in 2018, and it is expected that Kazakhstan's apparent natural gas consumption will grow at about 1.9% per year on average out to 2040. Competition for available commercial gas volumes between domestic consumption and export to China, therefore, will soon become one of the major problems for Kazakhstan and will require Kazakh government to make a tough choice – either continue to prioritise domestic consumption and in this way to receive less profit than one's due or instead opt for a more lucrative option of exporting limited gas volumes available to China at the expense of domestic consumption. Many experts, therefore, expect that Kazakh gas export to China will probably fall, from 7–8 bcm each to China and Russia in the early 2020s, to less than half that in the late 2020s.

Most of the gas delivered by pipelines in Kazakhstan is consumed in power generation (50%), followed by residential-commercial users (domestic sector) (36%), and industry (14%). Under the national Green Economy Strategy adopted in 2013, Kazakhstan's programme of gasification and switching the predominantly coal-fired power sector to gas has made good progress in the last five years.

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